

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>Mason County Rural Fire Authority</b>	County <b>Mason</b>
Audit Date <b>12/31/05</b>	Opinion Date <b>3/14/06</b>	Date Accountant Report Submitted to State: <b>3/21/06</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

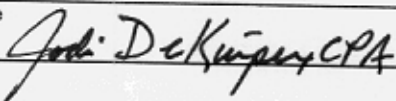
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Hendon &amp; Slate, P.C.</b>			
Street Address <b>711 WEST MAIN STREET, PO BOX 9</b>		City <b>Fremont</b>	State <b>MI</b>
Accountant Signature 		ZIP <b>49412</b>	Date <b>3/21/06</b>

**MASON COUNTY RURAL FIRE AUTHORITY  
MASON COUNTY, MICHIGAN**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2005**

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## **MASON COUNTY RURAL FIRE AUTHORITY**

### List of Principal Individuals

	<u>Position</u>
James Whitaker	Chairperson
Bruce Borema	Vice Chairperson
Bruce Krieger	Secretary
Bruce Patterson	Treasurer
Ron Melchert	Trustee
Robert Bacon	Business Manager



**Hendon & Slate, P.C.**  
CERTIFIED PUBLIC ACCOUNTANTS  
BUSINESS CONSULTANTS



Mason County Rural Fire Authority  
c/o Bob Bacon  
P.O. Box 152  
Custer, MI 49405

### Independent Auditor's Report

We have audited the accompanying financial statements of The Mason County Rural Fire Authority as of and for the years ended December 31, 2005 and 2004, as listed in the table of contents. These financial statements are the responsibility of Mason County Rural Fire Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Mason County Rural Fire Authority as of December 31, 2005 and 2004 and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The required supplemental information is presented for purposes of additional analysis, and is not a required part of the financial statements of Mason County Rural Fire Authority. Such information has been subjected to the auditing procedures applied in the audit of the combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

The management discussion and analysis included in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of Mason County Rural Fire Authority. We did not examine this data and, accordingly, do not express an opinion thereon.

*Hendon & Slate*

Hendon & Slate, P.C.  
Certified Public Accountants  
March 14, 2006

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**MANAGEMENT'S DISCUSSION AND ANALYSIS  
MASON COUNTY RURAL FIRE AUTHORITY  
December 31, 2005 and 2004**

Using this Annual Report

This annual report consists of a series of financial statements. The Statements of Net Assets and the Statements of Activities provide information about the activities of the Authority as a whole and present a longer-term view of the Authority's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Authority's operations in more detail than the government-wide financial statements.

The Authority as a Whole

The amounts reported for 12/31/04 have been adjusted for a prior period correction. The 2004 Financial Statements included an amount payable for an asset received in December, however, this asset was donated to the Authority. Therefore, the 2004 statements have been adjusted to reflect a decrease in payables and an increase in revenue. The Authority's combined net assets decreased .5% from a year ago -- decreasing from 671.4 thousand to 668.4 thousand. In a condensed format, the table below shows key financial information:

	<b>Governmental Activities</b>	
	<u><b>12/31/05</b></u>	<u><b>12/31/04</b></u>
Current Assets	\$ 122,354	\$ 215,526
Noncurrent Assets	<u>1,206,948</u>	<u>1,282,321</u>
 Total Assets	 1,329,302	 1,497,847
 Current Liabilities	 234,934	 205,684
Long-Term Debt Outstanding	<u>426,000</u>	<u>620,740</u>
 Total Liabilities	 <u>660,934</u>	 <u>826,424</u>
 Net Assets		
Invested in Capital Assets		
- Net of Debt	586,030	473,894
Unrestricted	<u>82,338</u>	<u>197,529</u>
 Total Net Assets	 <u><u>\$ 668,368</u></u>	 <u><u>\$ 671,423</u></u>

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations, decreased by \$115,191 for the governmental activities. This represents a decrease of approximately 58.3%. This decrease was mostly as a result of repaying \$187,508 of principal on the long-term debt. This was offset by the depreciation of the capital assets of \$96,976. The current level of unrestricted net assets for our governmental activities stands at \$82,338, or about 13.4% of expenses.

Management's Discussion and Analysis (Continued)

	<b>Governmental Activities</b>	
	<b><u>2005</u></b>	<b><u>2004</u></b>
Revenues		
Taxes	\$ 462,920	\$ 430,870
Interest	4,439	2,729
Grants and Other	<u>140,502</u>	<u>141,286</u>
Total Revenues	607,861	574,885
Expenses		
Public Safety	385,135	332,526
Debt Service	35,372	42,782
Capital Outlay	96,433	45,143
Depreciation	<u>96,976</u>	<u>97,869</u>
Total Expenses	<u>613,916</u>	<u>518,320</u>
	(6,055)	56,565
Sale of Fixed Assets	<u>3,000</u>	<u>250</u>
Change in Net Assets	<u><u>\$ (3,055)</u></u>	<u><u>\$ 56,815</u></u>

Governmental Activities

The Authority's total governmental revenues increased by \$32,976, after adjusting for prior period correction, primarily due to an increase in property taxes of \$32,050.

Expenses increased by \$95,596 during the year. This was primarily the result of increases in wages of \$22,754, capital outlay of \$60,294 and repairs and maintenance of \$17,297.

Business-Type Activities

The Authority has no business-type activities.

The Authority's Fund

The Authority has only one fund, which is the General Fund and the Major Fund, as presented on pages 5 - 8.

The General Fund pays for all of the Authority's governmental services. The most significant expenditures paid by the Authority are wages (including payroll taxes), capital outlay, and debt service, accounting for approximately 67% of total expenditures.

## Management's Discussion and Analysis (Continued)

### General Fund Budgetary Highlights

Over the course of the year, the Authority amended the budget to take into account events during the year. The most significant change to revenues was to decrease property taxes by \$11,398, and the most significant changes to expenditures were to increase wages & payroll taxes by \$16,200 and operating supplies by \$14,700, amending the budget for actual receipts and disbursements as of December 31, 2005. The amended budget did not take into consideration the receivables and payables to be recorded by December 31, 2005. The Authority overall stayed below budget, resulting in total expenditures \$11,148 below budget.

### Capital Asset and Debt Administration

At the end of 2005, the Authority had approximately \$1.93 million invested in capital assets and approximately \$1.90 million for 2004, consisting of mostly vehicles. These vehicles are being depreciated over a 15 year estimated useful life.

### Economic Factors and Next Year's Budgets and Rates

The Authority's budget for 2006 calls for a 10% increase on property tax revenues. This can be accomplished because of the strong growth in our tax base. Because of the impact of Proposal A, however, the Authority needs to continue to watch its budget very closely. The state-wide tax reform act limits growth in taxable value on any individual property to the lesser of inflation or 5%. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the Authority will grow less than by inflation, before considering new property additions.

The wage revenue budget for 2006 calls for a 4% increase in the reimbursements. Total expenditures for 2006 are expected to have a 1.6% decrease from 2005 budgeted amounts, but an 8.3% increase over actual 2005 expenditures. This and the contingency of \$3,150 will allow the Authority for any unforeseen situations to occur resulting in significant expenditures.

### Contacting the Authority's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the business manager.



# MASON COUNTY RURAL FIRE AUTHORITY

## Governmental Funds Balance Sheet/Statement of Net Assets December 31, 2005

	General Fund	Adjustments <sup>A</sup>	Statement Of Net Assets
<b>ASSETS</b>			
Current Assets			
Cash and Cash Equivalents	\$ 69,747	\$ -	\$ 69,747
Wage Reimbursements Receivable	44,247	-	44,247
Prepaid Insurance	<u>8,360</u>	<u>-</u>	<u>8,360</u>
Total Current Assets	122,354	-	122,354
Capital Assets, Net of			
Accumulated Depreciation	<u>-</u>	<u>1,206,948</u>	<u>1,206,948</u>
Total Assets	<u><u>\$ 122,354</u></u>	1,206,948	1,329,302
<b>LIABILITIES AND FUND EQUITY</b>			
Liabilities			
Current Liabilities			
Accounts Payable	\$ 40,016	-	40,016
Current Portion of Long-Term Debt	<u>-</u>	<u>194,918</u>	<u>194,918</u>
Total Current Liabilities	40,016	194,918	234,934
Note Payable	<u>-</u>	<u>426,000</u>	<u>426,000</u>
Total Liabilities	40,016	<u>620,918</u>	<u>660,934</u>
Fund Balances/Net Assets			
Fund Balance			
Unreserved	<u>82,338</u>	<u>(82,338)</u>	<u>-</u>
Total Liabilities and Fund Balances	<u><u>\$ 122,354</u></u>		
Net Assets:			
Invested in Capital Assets			
Net of Related Debt		586,030	586,030
Unrestricted		<u>82,338</u>	<u>82,338</u>
Total Net Assets		<u><u>\$ 668,368</u></u>	<u><u>\$ 668,368</u></u>

<sup>A</sup> Notes to the Financial Statements provide the details for main components of the adjustments.

The Notes to the Financial Statements are an integral part of this statement.

# MASON COUNTY RURAL FIRE AUTHORITY

## Governmental Funds Balance Sheet/Statement of Net Assets December 31, 2004

	<u>General Fund</u>	<u>Adjustments</u> <sup>A</sup>	<u>Statement Of Net Assets</u>
<b>ASSETS</b>			
Current Assets			
Cash and Cash Equivalents	\$ 155,108	\$ -	\$ 155,108
Wage Reimbursements Receivable	53,977	-	53,977
Prepaid Insurance	<u>6,441</u>	<u>-</u>	<u>6,441</u>
Total Current Assets	215,526	-	215,526
Capital Assets, Net of Accumulated Depreciation	<u>-</u>	<u>1,282,321</u>	<u>1,282,321</u>
Total Assets	<u><u>\$ 215,526</u></u>	1,282,321	1,497,847
<b>LIABILITIES AND FUND EQUITY</b>			
Liabilities			
Current Liabilities			
Accounts Payable	\$ 17,997	-	17,997
Current Portion of Long-Term Debt	<u>-</u>	<u>187,687</u>	<u>187,687</u>
Total Current Liabilities	17,997	187,687	205,684
Note Payable	<u>-</u>	<u>620,740</u>	<u>620,740</u>
Total Liabilities	17,997	<u>808,427</u>	<u>826,424</u>
Fund Balances/Net Assets			
Fund Balance			
Unreserved	<u>197,529</u>	<u>(197,529)</u>	<u>-</u>
Total Liabilities and Fund Balances	<u><u>\$ 215,526</u></u>		
Net Assets:			
Invested in Capital Assets			
Net of Related Debt		473,894	473,894
Unrestricted		<u>197,529</u>	<u>197,529</u>
Total Net Assets		<u><u>\$ 671,423</u></u>	<u><u>\$ 671,423</u></u>

<sup>A</sup> Notes to the Financial Statements provide the details for main components of the adjustments.

The Notes to the Financial Statements are an integral part of this statement.

# MASON COUNTY RURAL FIRE AUTHORITY

## Statement of Governmental Revenue, Expenditures and Changes in Fund Balance/Statement of Activities For the Fiscal Year Ended December 31, 2005

	<u>General Fund</u>	<u>Adjustments</u> <sup>A</sup>	<u>Statement of Activities</u>
Revenues			
Taxes	\$ 462,920	\$ -	\$ 462,920
Interest	4,439	-	4,439
Grants and Other	<u>140,502</u>	<u>-</u>	<u>140,502</u>
Total Revenues	607,861	-	607,861
Expenditures			
Public Safety	385,135	-	385,135
Debt Service	222,880	(187,508)	35,372
Capital Outlay	118,037	(21,604)	96,433
Depreciation	<u>-</u>	<u>96,976</u>	<u>96,976</u>
Total Expenditures	<u>726,052</u>	<u>(112,136)</u>	<u>613,916</u>
Excess Revenues Over (Under) Expenditures	(118,191)	112,136	(6,055)
Other Financing Sources (Uses)			
Sale of Fixed Assets	<u>3,000</u>	<u>-</u>	<u>3,000</u>
Total Other Financing Sources (Uses)	<u>3,000</u>	<u>-</u>	<u>3,000</u>
Excess Revenues and Other Sources Over (Under) Expenditures and Other Uses	(115,191)	112,136	(3,055)
Fund Balance/Net Assets - Beginning of Year	<u>197,529</u>	<u>473,894</u>	<u>671,423</u>
Fund Balance/Net Assets - End of Year	<u>\$ 82,338</u>	<u>\$ 586,030</u>	<u>\$ 668,368</u>

<sup>A</sup> Notes to the Financial Statements provide the details for main components of the adjustments.

The Notes to the Financial Statements are an integral part of this statement.

# MASON COUNTY RURAL FIRE AUTHORITY

## Statement of Governmental Revenue, Expenditures and Changes in Fund Balance/Statement of Activities For the Fiscal Year Ended December 31, 2004

	<u>General Fund</u>	<u>Adjustments</u> <sup>A</sup>	<u>Statement of Activities</u>
Revenues			
Taxes	\$ 430,870	\$ -	\$ 430,870
Interest	2,729	-	2,729
Grants and Other	<u>141,286</u>	<u>-</u>	<u>141,286</u>
Total Revenues	574,885	-	574,885
Expenditures			
Public Safety	332,526	-	332,526
Debt Service	223,129	(180,347)	42,782
Capital Outlay	57,743	(12,600)	45,143
Depreciation	<u>-</u>	<u>97,869</u>	<u>97,869</u>
Total Expenditures	<u>613,398</u>	<u>(95,078)</u>	<u>518,320</u>
Excess Revenues Over (Under) Expenditures	(38,513)	95,078	56,565
Other Financing Sources (Uses)			
Sale of Fixed Assets	<u>250</u>	<u>-</u>	<u>250</u>
Total Other Financing Sources (Uses)	<u>250</u>	<u>-</u>	<u>250</u>
Excess Revenues and Other Sources Over (Under) Expenditures and Other Uses	(38,263)	95,078	56,815
Fund Balance/Net Assets - Beginning of Year	<u>235,792</u>	<u>378,816</u>	<u>614,608</u>
Fund Balance/Net Assets - End of Year	<u>\$ 197,529</u>	<u>\$ 473,894</u>	<u>\$ 671,423</u>

<sup>A</sup> Notes to the Financial Statements provide the details for main components of the adjustments.

The Notes to the Financial Statements are an integral part of this statement.

# MASON COUNTY RURAL FIRE AUTHORITY

Notes to the Financial Statements  
December 31, 2005 and 2004

## NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Mason County Rural Fire Authority conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Mason County Rural Fire Authority.

### A. Reporting Entity

The Mason County Rural Fire Authority is governed by an elected seven-member council (Board). The accompanying financial statements present the government.

### B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

### C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded

when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual – that is, when they become both measurable and available to finance expenditures of the fiscal period. Revenues that are both measurable and available are recorded when earned. All other revenue items are considered to be available only when cash is received by the Authority.

The Authority reports the following major governmental funds:

The General Fund is the Authority's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in the government-wide financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements, however, there is only one fund reported.

D. Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each December 1<sup>st</sup> on the taxable valuation of property as of the preceding December 31<sup>st</sup>. Taxes are considered delinquent on March 1<sup>st</sup> of the following year, at which time penalties and interest are assessed.

## Notes to the Financial Statements (Continued)

Accounts payable for the years ended December 31, 2005 and 2004 were \$40,016 and \$30,627, respectively, and consisted of invoices from vendors.

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets - Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Donated assets totaling \$15,934 and \$12,630 were received as of years ended December 31, 2005 and 2004 respectively.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings and Improvements	15 - 50 years
Vehicles and Trailers	10 - 15 years
Furniture and Equipment	5 - 20 years

### NOTE B RISK MANAGEMENT

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, as well as employee injuries. The Authority maintains commercial insurance coverage for each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Authority. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

### NOTE C STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The General Fund is under formal budgetary control. The budget shown in the financial statements for this fund was prepared on a basis not significantly different from the modified accrual basis used to reflect actual results and consists only of those amounts contained in the formal budget approved and amended by the Board.

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the years ended December 31, 2005 and 2004, the Authority did incur material overexpenditures in the following accounts:

Notes to the Financial Statements (Continued)

<u>2005</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund			
Capital Outlay	\$ 92,400	\$ 118,037	\$ (25,637)
Repairs & Maintenance - Building	22,000	25,576	(3,576)
<u>2004</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund			
Education & Training	\$ 6,000	\$ 9,326	\$ (3,326)
Repair & Maintenance - Buildings	13,100	18,554	(5,454)

The significant variance reflected in the 2005 capital outlay item was a result of an audit adjustment. In the body of the financial statements, the Authority's actual expenditures and budgeted expenditures for the budgetary fund has been shown on a functional basis. The approved budgets for this budgetary fund were adopted at the line item level.

NOTE D RECONCILIATION OF FUND FINANCIAL STATEMENTS TO GOVERNMENT-WIDE FINANCIAL STATEMENTS

Total fund balance and net change in fund balance of the Authority's governmental fund differs from net assets and statement of the governmental activities reported in the statement of net assets and statement of activities. This difference primarily results from the long-term economic focus of the statement of net assets and statement of activities versus the current financial resources focus of the governmental fund balance sheet and statement of revenue, expenditures, and change in fund balance. The following are reconciliation of fund balance to net assets and the net change in fund balance to the net change in net assets.

	<u>12/31/05</u>	<u>12/31/04</u>
<b>Total Fund Balance - Modified Accrual Basis</b>	\$ 82,338	\$ 197,529
Amounts reported in the statement of net assets are different because:		
Capital Assets are not financial resources, and are not reported in the funds	1,206,948	1,282,321
Long-term liabilities are not due and payable in the current period and are not reported in the funds	<u>(620,918)</u>	<u>(808,427)</u>
<b>Net Assets of General Fund - Full Accrual Basis</b>	<u>\$ 668,368</u>	<u>\$ 671,423</u>
<b>Net Change in Fund Balances - Modified Accrual Basis</b>	\$ (115,191)	\$ (38,263)



## Notes to the Financial Statements (Continued)

Amounts reported in the statement of activities are different because:

Capital outlays are reported as expenditures in the statement of revenue, expenditures, and changes in fund balance; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

	<u>12/31/05</u>	<u>12/31/04</u>
Capital Outlay	21,604	12,600
Depreciation	(96,976)	(97,869)

Repayment of bond principal are reported as an expenditure in the fund statements, but not in the statement of activities (where it reduces long-term debt)

<u>187,508</u>	<u>180,347</u>
----------------	----------------

### **Change in Net Assets of General Fund - Full Accrual Basis**

<u>\$ (3,055)</u>	<u>\$ 56,815</u>
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## NOTE E CASH AND CASH EQUIVALENTS

Legal or Contractual Provisions for Deposits and Investments - The Michigan Political Subdivisions Act No. 20, Public Acts of 1943, as amended by Act No. 217, Public Acts of 1982, states the Authority, by resolution, may authorize the Treasurer to invest surplus funds as follows:

- a. Bonds, securities and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution complies with subsection (2).
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in subdivision (a).
- e. Bankers' acceptances of United States banks.
- f. Obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 81a-1 to 801-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation. However, a mutual fund is not disqualified as a permissible investment solely by reason of either of the following:
  - i The purchase of securities on a when-issued or delayed delivery basis.
  - ii The ability to lend portfolio securities as long as the mutual fund receives collateral all times equal to at least 100% of the securities loaned.
  - iii The limited ability to borrow and pledge a like portion of the portfolio's assets for temporary or emergency purposes.

Notes to the Financial Statements (Continued)

- h. Obligations described in subdivisions (a) through (g) if purchased through an interlocal agreement under the Urban Cooperations Act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- i. Investment pools organized under the surplus funds Investment Pool Act, 1982 PA 367, 129.111 to 129.118.
- j. The investment pools organized under the local government Investment Pool Act, 1985 PA 121, MCL 129.141 to 129.150.

The Authority funds are held at West Shore Bank, are carried at cost and consisted of the following:

	<u>Carrying Value</u>	<u>Market Value</u>
NOW	\$ 6,452	\$ 10,985
Payroll Checking	15	2,535
Money Market - General	<u>63,279</u>	<u>63,279</u>
Total Deposits	<u>\$ 69,746</u>	<u>\$ 76,799</u>
FDIC Insured	\$ 6,467	\$ 13,520
Uninsured	-	-
Money Market Funds	63,279	63,279

Investments are normally categorized to give an indication of the level of risk assumed by the Authority; however, money market funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. Management believes the investments in the funds comply with the investment authority noted above.

NOTE F LEASES

Each entity holds a lease with the Fire Authority for the use of the fire barns and similar properties. The Authority pays no monies for these leases, but does provide insurance, maintenance and repairs, and utilities for each building. The term of the lease agreements shall continue so long as the Authority shall use the premises for the purpose of providing fire protection services.

During 2005, the Authority entered into a lease with Xerox for the use of a copier. The lease calls for 60 minimum monthly payments of \$21.66, after which there is an option to purchase the copier at fair market value.

NOTE G CHANGES IN LONG-TERM DEBT

<u>Outstanding Principal December 31, 205</u>	<u>Due Within One Year</u>
---	------------------------------------

Fire Truck Loan #1

On May 17, 2002, the Authority entered into an agreement with West Shore Bank to consolidate two previous loans from West Shore Bank.

Notes to the Financial Statements (Continued)

This loan was in the amount of \$626,235 for the purchase of fire trucks and equipment. The note is due in annual payments of \$172,541.32.

Interest is calculated at 3.95% per annum.

\$ 165,918

\$ 165,918

Outstanding  
Principal  
December 31, 2005

Due  
Within  
One Year

Fire Truck Loan #2

During 2002, the Authority entered into an agreement with the United States of America (USDA) for a note in the amount of \$535,000 for the purchase of fire trucks and equipment. The note was due in annual principal payments of \$25,000 to \$48,000 through 2017 and interest payable semiannually at 4.625%. During 2002, only \$506,582 was received. The balance of \$28,418 was received in January, 2003.

455,000

29,000

Total Notes Payable

\$ 620,918

\$ 194,918

The annual requirements to amortize long-term debt outstanding as of December 31, 2005, including interest are as follows:

Year Ended	<u>West Shore Bank Loan</u>		<u>USDA Loan</u>	
<u>December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 165,918	\$ 6,554	\$ 29,000	\$ 21,044
2007	-	-	31,000	19,702
2008	-	-	32,000	18,269
2009	-	-	33,000	16,789
2010-2014	-	-	192,000	59,339
2015-2017	-	-	<u>138,000</u>	<u>12,950</u>
Total	<u>\$ 165,918</u>	<u>\$ 6,554</u>	<u>\$ 455,000</u>	<u>\$ 148,093</u>

Changes in long-term debt for the year ended December 31, 2005:

	<u>Fire Truck Loan #1</u>	<u>Fire Truck Loan #2</u>	<u>Total</u>
Debt Outstanding 01/01/05	\$ 325,427	\$ 483,000	\$ 808,427
Debt Added During The Year	-	-	-
Debt Retired During The Year	<u>(159,509)</u>	<u>(28,000)</u>	<u>(187,509)</u>
Debt Outstanding 12/31/05	<u>\$ 165,918</u>	<u>\$ 455,000</u>	<u>\$ 620,918</u>

Notes to the Financial Statements (Continued)

NOTE H CAPITAL ASSETS

A summary of changes in general fixed assets for governmental activities is as follows:

	Balance 01/01/05	Additions	Deductions	Balance 12/31/05
Capital Assets:				
Equipment	\$ 12,600	\$ 15,934	\$ -	\$ 28,534
Vehicles	1,891,521	-	-	1,891,521
Site Improvements	<u>-</u>	<u>5,670</u>	<u>-</u>	<u>5,670</u>
Total	1,904,121	21,604	-	1,925,725
Accumulated Depreciation	<u>(621,800)</u>	<u>(96,976)</u>	<u>-</u>	<u>(718,776)</u>
Net Book Value	<u>\$ 1,282,321</u>	<u>\$ (75,372)</u>	<u>\$ -</u>	<u>\$ 1,206,949</u>
Depreciation Expense				
Public Safety		<u>\$ 96,976</u>		

NOTE I PRIOR PERIOD ADJUSTMENT

During the year ended 2005, an error was discovered in the reporting of donated assets and accounts payable for 2004. Assets totaling \$12,630 were reported as accounts payable when they should have been reported as donated assets, which would have increased revenue for the period. Fund balance at December 31, 2004 increased as a result of the correction.

# MASON COUNTY RURAL FIRE AUTHORITY

## Required Supplementary Information Budgetary Comparison Schedule - General Fund For the Year Ended December 31, 2005

	Originally Adopted <u>Budget</u>	Final Amended <u>Budget</u>	<u>Actual</u>	Favorable (Unfavorable)
Revenues				
Property Taxes	\$ 473,398	\$ 462,000	\$ 462,920	\$ 920
Wage Reimbursements	129,000	129,000	113,823	(15,177)
Interest	2,000	4,000	4,439	439
Grants & Other	<u>5,000</u>	<u>10,700</u>	<u>26,679</u>	<u>15,979</u>
Total Revenues	609,398	605,700	607,861	2,161
Expenditures				
Wages and Payroll Taxes	158,800	175,000	145,360	29,640
Payroll Reimbursements	30,000	25,950	25,947	3
Office Supplies	2,420	5,000	4,732	268
Operating Supplies	25,300	40,000	39,679	321
Service Charges	600	150	125	25
Mileage	300	300	192	108
Insurance	55,000	55,200	55,158	42
Repair and Maintenance				
- Buildings	16,550	22,000	25,576	(3,576)
Repair and Maintenance				
- Equipment	45,200	45,200	42,562	2,638
Professional Fees	6,000	4,500	4,300	200
Education and Training	16,400	10,000	6,365	3,635
Telephone	5,925	4,500	4,811	(311)
Utilities	32,975	29,000	23,401	5,599
Printing and Publishing	2,645	1,500	1,346	154
Miscellaneous	5,200	3,500	5,581	(2,081)
Capital Outlay	92,400	92,400	118,037	(25,637)
Debt Service	<u>225,000</u>	<u>223,000</u>	<u>222,880</u>	<u>120</u>
Total Expenditures	<u>720,715</u>	<u>737,200</u>	<u>726,052</u>	<u>11,148</u>
Excess Revenues Over (Under) Expenditures	(111,317)	(131,500)	(118,191)	13,309
Other Financing Sources (Uses)				
Sale of Fixed Assets	<u>-</u>	<u>3,000</u>	<u>3,000</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>3,000</u>	<u>3,000</u>	<u>-</u>
Excess Revenues and Other Sources Over (Under) Expenditures and Other Uses	(111,317)	(128,500)	(115,191)	13,309
Prior Period Adjustment	-	-	12,630	12,630
Fund Balance - Beginning of Year	<u>184,899</u>	<u>184,899</u>	<u>184,899</u>	<u>-</u>
Fund Balance - End of Year	<u>\$ 73,582</u>	<u>\$ 56,399</u>	<u>\$ 82,338</u>	<u>\$ 25,939</u>

# MASON COUNTY RURAL FIRE AUTHORITY

## Required Supplementary Information Budgetary Comparison Schedule - General Fund For the Year Ended December 31, 2004

	Originally Adopted <u>Budget</u>	Final Amended <u>Budget</u>	<u>Actual</u>	Favorable (Unfavorable)
Revenues				
Property Taxes	\$ 445,080	\$ 430,970	\$ 430,870	\$ (100)
Wage Reimbursements	113,000	75,000	122,175	47,175
Interest	4,000	2,500	2,729	229
Grants & Other	<u>30,000</u>	<u>5,900</u>	<u>19,111</u>	<u>13,211</u>
Total Revenues	592,080	514,370	574,885	60,515
Expenditures				
Wages and Payroll Taxes	153,500	150,000	122,606	27,394
Payroll Reimbursements	25,000	23,600	23,567	33
Office Supplies	1,950	4,000	3,656	344
Operating Supplies	23,740	35,000	35,026	(26)
Service Charges	600	50	10	40
Mileage	300	300	256	44
Insurance	50,000	52,000	51,674	326
Repair and Maintenance				
- Buildings	19,350	13,000	18,554	(5,554)
Repair and Maintenance				
- Equipment	42,100	35,000	32,287	2,713
Professional Fees	5,500	4,100	4,011	89
Education and Training	13,550	6,000	9,326	(3,326)
Telephone	5,650	6,000	5,863	137
Utilities	30,525	28,000	20,009	7,991
Printing and Publishing	2,670	1,400	1,294	106
Miscellaneous	4,895	4,500	4,387	113
Capital Outlay	107,500	125,000	57,743	67,257
Debt Service	<u>225,000</u>	<u>225,000</u>	<u>223,129</u>	<u>1,871</u>
Total Expenditures	<u>711,830</u>	<u>712,950</u>	<u>613,398</u>	<u>99,552</u>
Excess Revenues Over (Under) Expenditures	(119,750)	(198,580)	(38,513)	160,067
Other Financing Sources (Uses)				
Sale of Fixed Assets	<u>-</u>	<u>250</u>	<u>250</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>250</u>	<u>250</u>	<u>-</u>
Excess Revenues and Other Sources Over (Under) Expenditures and Other Uses	(119,750)	(198,330)	(38,263)	160,067
Fund Balance - Beginning of Year	<u>235,792</u>	<u>235,792</u>	<u>235,792</u>	<u>-</u>
Fund Balance - End of Year	<u>\$ 116,042</u>	<u>\$ 37,462</u>	<u>\$ 197,529</u>	<u>\$ 160,067</u>

# HS & S Companies



**Hendon & Slate, P.C.**  
CERTIFIED PUBLIC ACCOUNTANTS  
BUSINESS CONSULTANTS



March 15, 2006

Board of Directors  
Mason County Rural Fire Authority  
P.O. Box 152  
Custer, MI 49405

Dear Board Members:

We would like to thank you for the opportunity to conduct the audit for the Mason County Rural Fire Authority. It was a pleasure working with the business manager throughout the engagement.

In connection with our audit of the financial statements of the Mason County Rural Fire Authority as of and for the year ending December 31, 2005, we reviewed your accounting procedures and internal control over financial reporting. We offer the following comments in connection with such.

#### Books and Records

We commend the Board and Business Manager for the excellent condition in which the accounting records were presented this year.

#### Budgeting

The Authority ended the year with a few larger over-expenditures. The largest of these over-expenditures was a result of an audit adjustment which recorded the donation of an asset not previously recorded. In the future, we recommend that these items be reflected in the current year activity for the Authority and that the budget be amended upon knowledge of such donations.

#### Financial Condition

We noted that the financial condition of the Authority deteriorated significantly this year. Last year the percent of unrestricted net assets to expenses was 36% while this year this percent was 13.4%. This means that if the Authority was unable to collect any income it would be able to operate only 1 ½ months versus 4 months last year. It appears that this is largely due to the increase in capital outlay purchases during 2005 in the amount of \$118,037 compared with 2004 in the amount of \$57,743. We understand that the cost of fire equipment is a significant expenditure and that the Authority has to save funds from one or several years to cover the cost of new equipment or major repairs. We recommend that the Authority consider designating fund balance for years when the Authority is collecting funds to be spent in future years. This can be reflected in the budget as a carryover in the expenditures.

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GASB #34 - Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments

This is the second year that the Financial Statements have been prepared using the changes required under GASB 34. The most significant change you will notice this year is the inclusion of the prior year information for a comparative analysis.

This report is intended solely for the information and use of the Mason County Rural Fire Authority's management and the board members. This restriction is not intended to limit distribution of this report, which is a matter of public record.

We appreciate the courtesy extended to us during our audit. We are available year round to assist in the implementation of any of the recommendations set forth in this letter or to answer any questions regarding the audit.

Respectfully submitted,

A handwritten signature in cursive script that reads "Jodi DeKuiper, CPA".

Jodi DeKuiper, CPA  
Hendon & Slate, P.C.